The Distribution of Wealth. By THOMAS NIXON CARVER. New York: The Macmillan Co., 1904. 8vo, pp. vii + 290.

It will not be necessary for the reader of Professor Carver's treatise to agree with all, or indeed with many, of the positions taken in order to appreciate the power and significance of the work. In the present condition of the value-and-distribution problem, it is hardly to be expected that any treatment should forthwith and fully carry conviction. Professor Carver has earned high praise in that he has, with perfect clearness, defined precisely his point of view, systematically presented his doctrinal position, and carried it out with consistent argument. Too much can hardly be said in commendation of the book for its clarity and simplicity of style, its skill and effectiveness of statement, and its logical and attractive arrangement of material. That it offers much matter on which issue can be taken, much that may arouse controversy, is, for present-day purposes, rather to be counted as a merit than as occasion for unfavorable criticism.

In a case of this sort it is possible that the reviewer should confine himself to the function of reporting and summarizing. Nevertheless, it seems worth while to express forthwith the conviction that Professor Carver's theoretical position is untenable, for the reason that he attempts to make of value and distribution two distinct problems. This method of procedure is foredoomed to failure; since that which is cost to the entrepreneur is income to its recipient, there is no keeping of the two problems separate. In reality they are not two problems, but one; it is not even true that one is a corollary of the other; one is the other. Given the value of the factors of production, it is no doubt easy enough to arrive at the value of finished products; or, given the value of the products, it is not overdifficult to explain the value of the distributive shares, the costs. That is, value may be explained by costs or costs by value; but either the explanation is circular or it lacks even the seeming of an explanation; at the best its premises must be derived from its conclusions; value must find its explanation independently of the costs, or costs must still stand waiting their explanation. The classical writers took the costs as practically ultimate and irreducible facts, or, where the need of something further seemed peculiarly pressing, appealed to pains and abstinence and birth-rates as somehow, more or less inscrutably, serving as market-value determinants; land values, however, having no very evident cost-cause, were not admitted to function as value-

causes — as cost items, but remained outside as mere results of value — distributive shares pure and simple. The later thought inclines, without obviously better justification, to move in the reverse direction, explaining costs by values.

What is the causal sequence as conceived by Professor Carver? As it seems to this writer, the relation between values and distributive shares is traced out by Professor Carver as follows:

The value of the agent is determined by the value of the product. But what determines the value of the product? The relative want. And what determines the relative want? The relative supply. And what determines the relative supply? The cost of production. And what determines the cost of production? The value of the agents employed. And what determines the value of the agents? The value of the product; etc., etc.

But there is here, in the very necessities of the case, so grave danger of misinterpretation that it will be best, so far as it is possible, to present the author's views in his own words; and even so, it can hardly be assumed that all danger of injustice is avoided.

What determines the value of the agent?

The value of the product: "The interest of capital, the rent of land, as well as the wages of labor, come out of the total value of the product."

And what determines the value of the product?

The relative want: "The amount of value . . . . in an article depends upon how much it is wanted in comparison with other things" (pp. 6, 134).

And what determines the relative want?

The relative supply: "If there is only a small supply, it will go to those who want it most in comparison with other things, that is, to those who are willing to give the largest number of other things for it" (p. 17).

And what determines the relative supply?

The [relative] cost of production.

> No part of the supply could long be maintained if it cost more than it was worth. Consequently, the most expensive part of the supply cannot, in the long run, cost more than the price which it brings (p. 35). Value cannot be permanently much above or below the cost of production (p. 31). The price is fixed by the most expensive part of the market supply (p. 49). If . . . . the cost . . . . is so great as to more than balance the advantages that could be derived from it, no one would care to undertake it (p. 9). [The advantages to be derived are, it may safely be assumed, what it would sell for.]

What is the significance of cost?

Cost of production affects value only when, and so far as, it affects supply. .... Labor gets goods into usable form. But the same goods would have the same value if they rained from the sky .... provided that they were equally scarce (p. 32).

And what is cost?

[Here are found two answers between which, as not quite consistent, a choice must, seeming, be made: (1) effort (pain?) cost; (2) displacement (opportunity-value) cost.]

1. The amount of effort which is necessary to produce a given quantity, say a pound, of one commodity may be widely different from that which is necessary to produce the same quantity of another. .... Speaking generally, an article must have value enough to persuade men to make whatever effort is necessary to its production, or it will not be produced. .... If its value should rise, etc.? .... If it should for any reason fall below its cost of production, men would stop, etc. .... The general result is .... that its value bears a fairly close relation to the cost of producing it (p. 31).

2. Any particular acre of land, like any other factor in production, is valued only for what it will add to one's income; that is, for what it will yield over and above the cost of using it. But the cost of using it resolves itself into the amount which the labor and capital used in its production could produce elsewhere (p. 187).

If there are many and excellent opportunities for the employment of one's labor and capital, and their earnings consequently large, much will be sacrificed in withdrawing them from those other possible openings, and only the surplus above this large amount can count as the earnings of the land, or as the addition to one's income which comes to one through the use of the land. .... If a certain individual, with a given amount of labor and capital at his disposal, can earn $1,000 a year by working for other people .... a piece of land upon which he with his capital could produce a total crop worth only $1,000 would be worth nothing to him, but one upon which he could produce a crop worth $1,200 would be worth approximately $200 a year (p. 188).

What determines the value of the labor and capital, etc., in these alternative uses? The marginal contribution of each respective agent to the value of the product:

The marginal productivity of labor of any class determines the rate of wages of that class (p. 181).

A rate of wages will be paid which will be approximately equal to the marginal product of labor. .... This is the amount .... which he adds to the product of the other two, and it now becomes the marginal product of labor (p. 154, 155).

> Find out how much can be produced without any particular tool or machine, and then how much can be produced with it, and in the difference you have the measure of its productiveness (p. 216).

But what determines the value of the product out of which, and by virtue of which, the share of the contributing factor is fixed? The relative want; and this by the supply; and this by the cost; etc., etc.

Once again recognizing fully the danger of misinterpretation and of injustice in this method of exposition by excerpts, it is again to be said that, as this reviewer understands the argument, the foregoing is a correct summary of it. But to insist that the charge of circuity holds against it is merely a restatement of the criticism to be directed against most or all formulations thus far made of the theory of distribution — a vice necessarily inherent, as this writer believes, in any attempt to treat distribution as something other than an integral part of the value-problem.

It should be forthwith added that upon the supply side Professor Carver emphasizes the population law as having to do with wage levels, through the effect of standards of living upon the labor supply; and presents the abstinence limitation as bearing in parallel manner upon the supply, and thereby upon the remuneration of capital. But evidently these considerations, while of unquestionable validity for their purposes, cannot, for wages, in the sense of absolute sums of payment, stand as determinants, but only as influences bearing upon the relative supplies of the different productive factors, and thereby upon the relative share of the total product received by each. The supply of labor affects the wages of labor only as it affects the total product of society, and the terms of the distribution of that product. As Professor Carver has shown with admirable clearness and conclusiveness increasing population affects wages only as under the environmental conditions, it brings about a relatively diminishing return to society in product, and a relatively smaller distributive share to the increasing factor, labor. But it must be also true that if capital through saving, and land through developing transportation or otherwise, were increasing equally rapidly with labor, the wage level would suffer neither by diminishing total product nor by a smaller distributive fraction.

Such limitations as are effective upon population have therefore only an indirect and relatively unimportant bearing upon wage levels; the principle of marginal productivity stands — for better or

worse — where it stood before, but under such changed conditions of labor volume relatively to other factors as the entire range of changes presents.

A like statement holds for the bearing of abstinence upon interest rates; these are affected by changes in supply only to the extent that the change in the volume of capital affects the total output, and value of capital products and thereby the share out of the total social dividend imputed to capital by title of its marginal productivity. This principle also finds its explanation under the two laws of diminishing total return in product and diminishing value return as distributive share. The bearing of supply changes in cases of this sort is in great danger of being confused in working and in importance with the bearing of supply changes upon the value of consumable goods.

But it remains to query whether, and in what degree if at all, this whole doctrine of marginal-value-productivity imputation can make claim to acceptance as the central truth, or as any truth, in the theory of distribution.

This law is that a given unit of labor of any kind is valued in industry according to the amount [value] which it can add to the total product of industry, or the amount which can be produced with this unit over and above what can be produced without it.

The marginal productivity of labor of any class determines the rate of wages of that class (p. 181).

In any industrial establishment, it is most profitable to use that amount of each factor which will make its marginal product just equal to its cost.

But now, in view of the fact that the added quantity of value product is a different quantity with different entrepreneurs, is it really possible to determine how much of the value is due to the particular productive agent under consideration? Different men derive different measures of additional product from precisely similar productive agents; the market value cannot, then, possibly coincide with more than one of these various results in product. Men are different. And is it clear that the added product is not indivisibly joint, rather than due entirely or in any ascertainable fraction to either one? Even the lowest bidder may have purchased or hired at less than his maximum possible offer; that is, the market price have left quasi-rents of entrepreneurship to all entrepreneurs.

And especially is this true for productive agents not in stocks; the successful bidder pays not all he might, but all that the next

strongest competitor forces him to pay. That is to say, the remuneration of the agent is not to be conceived as the equivalent of its contribution toward value-creation, but is merely the market value of this contribution; the divergence may be a very considerable one, and is always theoretically existent. Men differ.

But even were it true that the remuneration always corresponded with the maximum offer of some competing bidder, this would fall far short of establishing the equivalence between remuneration and value contribution. The Austrians — and especially Wieser — have made this clear: The factors A, B, and C, which separately will produce 40, 30, and 20 respectively, will, in co-operation, produce more than the sum of 40, 30, and 20; it is because of this that they are put together; together they have, say, a product of 100. Remove A, and the product falls to 50; A appears therefore, by this subtraction method, to produce 50. But remove B and the product falls to 60, imputing, under the assumed rule, 40 to B. Remove C and the product falls to 70, C thus appearing to account for 30 of product. But 50, 40, and 30 are more than the whole joint product; the method will not work.

It is wrong in principle; a simple illustration of it is found in the case of the pair of gloves worth, say, one dollar. By this subtraction method either glove has imputed to it the value of the pair, and the pair thereby becomes worth, not one dollar, but two.

The truth seems to be that men bid for instruments of production to go with their own labor or to supplement an existing stock, because with the new factor the old become more productive; but there is no occasion for ascribing the total of this joint and co-operative increase either to the old or the new factors. Market values for productive contributions can, indeed, be worked out of situations of this sort — the market is doing it daily and hourly — but never any measure or purported expression of the value productiveness.

And even at some isolated margin — of the sort worked out by Clark — there is never really an isolation; for the entrepreneur is there. That part of the productiveness must be ascribed to him is evident from the fact that if he were not there to bid for the agent and to use it, it would fall, at a lower price, to a less efficient bidder, with a lower productiveness. To the extent at least of this difference entrepreneur productivity must be present.

Something might be said of the author's treatment of the law of diminishing returns, which is made the central feature of the theory

of distribution. On the whole, the discussion is most ingenious and most illuminating, though confusion is occasionally caused through failure to distinguish weight-and-tale productivity from value productivity, and again, through the seeming addition of labor, as a time quantity, to capital as concrete instrument, and these together, as some sort of a unit, to land as area, the sum of all these being, in turn, subjected to comparison in point of increase with the increase in their joint concrete product.

Professor Carver pronounces strongly in favor of preserving the distinction between land and capital both for static and for dynamic purposes; he sees, indeed, as bearing upon the relations of land and capital to cost, no significance in the distinction between static and dynamic. But whether in the long or in the short run, he would trace the remuneration of land to the same underlying basis of productivity as is posited for labor and land; and he finds no difficulty in holding that the relations of rent to cost differ radically from those of wages and interest.

There is, however, a sense in which wages do enter into the price of products and in which rent does not. Laborers have to be persuaded to work by some offer of advantage to themselves, and land does not. It is true that landlords may have to be persuaded, but there would be land if there were no landowners, whereas there would be no labor if there were no laborers (pp. 206, 207).

It is not necessary that anyone should receive rent in order that there may be land, and rent is not therefore necessary in order that there should be production. Rent is wholly a result of production, and not a cause also, whereas wages are a cause as well as a result. . . . . Therefore rent is not as wages are, a necessary share in the cost of production (p. 209).

If only pure economic rent were taken, leaving untouched all that could be attributed to labor, foresight, or enterprise, it would not affect production at all. . . . . This is, after all, the most important reason for distinguishing rent from other forms of income (p. 209).

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